

# *State of South Carolina*



## *Office of the State Auditor*

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA  
DEPUTY STATE AUDITOR

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May 23, 2007

Ms. Kim Holmes, Administrator  
Wesley Commons  
1110 Marshall Road  
Greenwood, South Carolina 29646

Re: AC# 3-MHG-J4 – Wesley Commons

Dear Ms. Holmes:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 2003 through September 30, 2004. That report was used to set the rate covering the contract period beginning October 1, 2005.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976, as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA  
Deputy State Auditor

RHGjr/ms

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Ms. Kathleen C. Snider  
Mr. Jerry D. Morton, CFO

**WESLEY COMMONS  
GREENWOOD, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 2005  
AC# 3-MHG-J4**

**AGREED-UPON PROCEDURES REPORT  
ON CONTRACT  
FOR  
PURCHASE OF NURSING CARE SERVICES  
WITH  
STATE OF SOUTH CAROLINA  
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 13, 2007

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Wesley Commons, for the contract period beginning October 1, 2005, and for the twelve month cost report period ended September 30, 2004, as set forth in the accompanying schedules. The management of Wesley Commons is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Wesley Commons, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the Provider. Our findings as a result of these procedures are presented in the Summary of Costs and Total Patient Days, Adjustment Report, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the South Carolina Department of Health and Human Services and Wesley Commons dated as of October 1, 2001, as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
February 13, 2007

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", with a stylized flourish at the end.

Richard H. Gilbert, Jr., CPA  
Deputy State Auditor

**WESLEY COMMONS**  
Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2005  
AC# 3-MHG-J4

	10/01/05- <u>09/30/06</u>
Interim Reimbursement Rate (1)	\$133.27
Adjusted Reimbursement Rate	<u>132.63</u>
Decrease in Reimbursement Rate	\$ <u>.64</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated March 1, 2006.

**WESLEY COMMONS**

Computation of Adjusted Reimbursement Rate  
For the Contract Period October 1, 2005 Through September 30, 2006  
AC# 3-MHG-J4

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 62.90	\$ 75.11	
Dietary		17.35	12.63	
Laundry/Housekeeping/Maintenance		<u>12.13</u>	<u>10.97</u>	
Subtotal	<u>\$6.33</u>	92.38	98.71	\$ 92.38
Administration & Medical Records	<u>\$ -</u>	<u>16.71</u>	<u>16.13</u>	<u>16.13</u>
Subtotal		109.09	<u>\$114.84</u>	108.51
<u>Costs Not Subject to Standards:</u>				
Utilities		3.84		3.84
Special Services		.04		.04
Medical Supplies & Oxygen		3.58		3.58
Taxes and Insurance		3.17		3.17
Legal Fees		<u>.08</u>		<u>.08</u>
<b>TOTAL</b>		<u>\$119.80</u>		119.22
Inflation Factor (4.70%)				5.60
Cost of Capital				9.81
Cost of Capital Limitation				(3.75)
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				6.33
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(4.58)</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$132.63</u>

**WESLEY COMMONS**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2004  
AC# 3-MHG-J4

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$2,304,971	\$ 3,153 (11)	\$ 9,814 (1) 383 (2) 20,873 (3) 965 (4) 1,433 (4) 12,000 (9) 8,434 (10)	\$2,254,222
Dietary	624,117	368 (4)	2,593 (2)	621,892
Laundry	102,841	349 (4)	-	103,190
Housekeeping	199,261	-	7,996 (2) 1,696 (4) 1,340 (14)	188,229
Maintenance	139,611	9,622 (2) 18,024 (10) 572,605 (12)	3,171 (4) 592,550 (8) 991 (14)	143,150
Administration & Medical Records	606,956	15,080 (1) 30,497 (3) 10,035 (4) 9,242 (4) 12,000 (9) 738,791 (12)	1,320 (2) 73,708 (6) 745,181 (13) 3,385 (14)	599,007
Utilities	148,201	-	9,590 (10) 954 (14)	137,657
Special Services	1,552	-	-	1,552



**WESLEY COMMONS**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2004  
AC# 3-MHG-J4

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Medical Supplies & Oxygen	143,343	-	11,786 (3) 3,392 (4)	128,165
Taxes and Insurance	49,993	198,091 (12)	133,849 (7) 777 (14)	113,458
Legal Fees	3,136	5,162 (12)	5,590 (13) 18 (14)	2,690
Cost of Capital	217,184	48,236 (12) <u>102,271 (15)</u>	14,905 (5) <u>1,246 (14)</u>	351,540
Subtotal	4,541,166	1,773,526	1,669,940	4,644,752
Ancillary	144,816	-	-	144,816
Nonallowable	9,581,205	2,670 (2) 2,162 (3) 14,905 (5) 73,708 (6) 133,849 (7) 592,550 (8) 20,640 (11) 750,771 (13) <u>8,711 (14)</u>	5,266 (1) 9,337 (4) 1,562,885 (12) 102,271 (15)	9,501,412
Total Operating Expenses	<u>\$14,267,187</u>	<u>\$3,373,492</u>	<u>\$3,349,699</u>	<u>\$14,290,980</u>
Total Patient Days	<u>35,839</u>	<u>-</u>	<u>-</u>	<u>35,839</u>
Total Beds	<u>102</u>			

**WESLEY COMMONS**  
Adjustment Report  
Cost Report Period Ended September 30, 2004  
AC# 3-MHG-J4

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Administration	\$ 15,080	
	Restorative		\$ 9,814
	Nonallowable		5,266
	To revise the allocation of facility 4 department 6200 HIM-15-1, Section 2304		
2	Maintenance	9,622	
	Nonallowable	2,670	
	Restorative		383
	Dietary		2,593
	Housekeeping		7,996
	Administration		1,320
	To revise the allocation of facility 4 departments 6700 HIM-15-1, Section 2304		
3	Medical Records	30,497	
	Nonallowable	2,162	
	Nursing		20,873
	Medical Supplies & Oxygen		11,786
	To reclassify salary expense based on the job descriptions DH&HS expense checklist HIM-15-1, Section 2304		
4	Dietary	368	
	Laundry	349	
	Administration	10,035	
	Medical Records	9,242	
	Nursing		965
	Restorative		1,433
	Housekeeping		1,696
	Maintenance		3,171
	Medical Supplies & Oxygen		3,392
	Nonallowable		9,337
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

**WESLEY COMMONS**  
Adjustment Report  
Cost Report Period Ended September 30, 2004  
AC# 3-MHG-J4

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nonallowable Cost of Capital	14,905	14,905
	To reclassify non-nursing home amortization expense HIM-15-1, Section 2100		
6	Nonallowable Administration	73,708	73,708
	To reclassify assisted living and independent living bank fees HIM-15-1, Section 2100		
7	Nonallowable Taxes and Insurance	133,849	133,849
	To adjust insurance expense based on insurance values HIM-15-1, Section 2304		
8	Nonallowable Maintenance	592,550	592,550
	To allocate shared maintenance HIM-15-1, Sections 2304 and 2100		
9	Medical Records Nursing	12,000	12,000
	To properly classify medical director's fees DH&HS Expense Checklist		
10	Maintenance Restorative Utilities	18,024	8,434 9,590
	To reclassify fuel expense and auto insurance DH&HS Expense Checklist HIM-15-1, Section 2304		

**WESLEY COMMONS**  
Adjustment Report  
Cost Report Period Ended September 30, 2004  
AC# 3-MHG-J4

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
11	Nursing	3,153	
	Nonallowable	20,640	
	Beauty and Barber Income		23,793
	To reclassify beauty and barber expense and reverse the income offset for stepdown purposes		
	DH&HS Expense Checklist		
	HIM-15-1, Section 2102.3		
12	Maintenance	572,605	
	Administration	738,791	
	Legal	5,162	
	Taxes and Insurance	198,091	
	Cost of Capital	48,236	
	Nonallowable		1,562,885
	To reverse DH&HS adjustment to remove indirect costs applicable to non-reimbursable cost centers		
	HIM-15-1, Section 2102.3		
	State Plan, Attachment 4.19D		
13	Nonallowable	750,771	
	Administration		745,181
	Legal		5,590
	To remove indirect cost applicable to non-reimbursable cost centers		
	HIM-15-1, Section 2102.3		
	State Plan, Attachment 4.19D		

**WESLEY COMMONS**  
Adjustment Report  
Cost Report Period Ended September 30, 2004  
AC# 3-MHG-J4

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
14	Nonallowable	8,711	
	Housekeeping		1,340
	Maintenance		991
	Administration		3,385
	Utilities		954
	Taxes and Insurance		777
	Legal		18
	Cost of Capital		1,246
	To remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
15	Cost of Capital	102,271	
	Nonallowable		102,271
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$3,373,492</u>	<u>\$3,373,492</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**WESLEY COMMONS**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2004  
AC# 3-MHG-J4

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.71494</u>
Deemed Asset Value (Per Bed)	42,402
Number of Beds	<u>102</u>
Deemed Asset Value	4,325,004
Improvements Since 1981	2,404,287
Accumulated Depreciation at 9/30/04	(3,422,412)
Deemed Depreciated Value	3,306,879
Market Rate of Return	<u>.0516</u>
Total Annual Return	170,635
Return Applicable to Non-Reimbursable Cost Centers	(1,160)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	169,475
Depreciation Expense	183,312
Amortization Expense	-
Capital Related Income Offsets	(1)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(1,246)</u>
Allowable Cost of Capital Expense	351,540
Total Patient Days (Minimum 96% Occupancy)	<u>35,839</u>
Cost of Capital Per Diem	\$ <u><u>9.81</u></u>

**WESLEY COMMONS**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2004  
AC# 3-MHG-J4

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ 2.07
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>6.06</u>
Reimbursable Cost of Capital Per Diem	\$ 6.06
Cost of Capital Per Diem	<u>9.81</u>
Cost of Capital Per Diem Limitation	\$ ( <u>3.75</u> )

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